

Outlook 2001



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Marketing Outlook

Livestock, Meat, and Poultry. Production of beef and pork in the fourth quarter of 2000 is expected to be below the fourth quarter of 1999, but broiler production is expected to show an increase over last year's levels. Fourth quarter live market steer prices are projected to be near their spring 2000 levels, which were the highest in over 3 years. Feeder cattle are projected to continue to bring high prices in the fourth quarter. Hog prices are expected to fall in the fourth quarter, but are still expected to result in positive net returns for most hog producers.

Beef, pork, and broiler production all increased in 2000, but beef production is expected to decline in 2001. Beef production was at a record high in 2000, but is expected to decline by about 4 percent in 2001. USDA's Economic Research Service projects that pork production will increase by 1 percent in 2001. Broiler production is expected to grow by 5 percent. Total red meat production in 2001 is projected to be marginally above 2000's level. Live animal prices are expected to increase in 2001 for feeder cattle and slaughter cattle, but slaughter hog prices are expected to decline. Hog prices are projected to be in the mid \$40s per cwt, feeder cattle prices are projected to be in the mid \$80s to low \$90s, and fed cattle prices are projected to rise to the mid \$70s. Broiler prices are projected to average in the mid \$0.50s per pound. Exports of beef in 2001 are expected to be below 2000 levels, but pork exports are expected to be up. Broiler exports are expected to be about the same in 2001 as in 2000. Large grain production in 2000 has led to continued low grain prices, thereby lowering feed costs and easing the profit strain on livestock producers.

The livestock industries continue to undergo major structural changes. Vertical production and marketing arrangements are developing relatively quickly, especially in the pork industry, where production and marketing contracts now account for over 60 percent of all slaughter hogs. Concentration levels in meat packing continue to be a major industry concern.

Grain. Expectations of record corn and soybean production, along with abundant wheat stocks have depressed prices for those major crops to near decade lows. While lower prices should stimulate domestic consumption and help boost exports, that will only take part of excess supply from the market. Beginning stocks, already double what they were 2 years ago, will likely climb higher by the end of the marketing year. That could place further pressure on prices.

Domestically, more favorable prices at planting than a year ago led to 3 percent and 1 percent acreage gains for corn and soybeans, respectively; wheat was slightly higher. Expanded acreage along with above-average yields due to favorable weather contributed to record corn and soybean crops. In contrast, winter wheat yields were hit by hot, dry weather, which contributed to an overall decline in wheat production. Prices for all

major crops are near or below decade lows after steady declines since the mid-1990s. Wheat prices have fallen from an average \$4.55 per bushel in 1995/96 to around \$2.50 in both 1999/2000 and 2000/01. During the same period corn prices slipped from \$3.24 per bushel in 1995/96 to \$1.80 in 1999/2000 and an expected range of \$1.45 to \$1.85 in 2000/01. Soybean prices, which peaked in 1996/97 at \$7.35 per bushel, were down to \$4.65 in 1999/2000 and to an estimated \$3.90 to \$4.80 in 2000/01.

Biotech corn and soybean acreage fell as a share of total acreage for the first time since 1996, but still account for a significant share of production. Biotech corn accounted for an estimated 25 percent share, down from one-third in 1999, while soybean's share declined to 54 percent from 57 percent in 1999. Low prices make farmers less willing to pay a premium for biotech seeds. Some producers also report lower-than-expected benefits from biotech crops relative to conventional varieties.

Internationally, higher worldwide production of grains and soybeans should decrease trade flows. Low domestic prices are expected to help the United States expand its market share for corn and soybeans, though smaller competitors' supplies will also be a factor. The U.S. market share in world corn markets is expected to reach 70 percent, up from 61 percent in 1999/2000, as a smaller Chinese crop creates less competition for our exports in Asia. Similarly, smaller South American soybean exports should allow for an increase in the U.S. market share to 60 percent, up from 57 percent in 1999/2000. Continued strong competition in world wheat markets from Europe, Canada, and Australia limits any likely increase in the U.S. market share, which is expected to remain little changed at 24 percent.

The U.S. crop outlook for FY 2001 is mixed. Most production will be marketed and used as it has in the past, i.e., as bulk commodities. However, a growing share of production involves specialty grains and oilseeds that command a premium in the market, such as high-oil corn, high oleic soybeans, and high-gluten durum wheat. Marketing these products is more niche-oriented, with increased use of segregation and identity preservation allowing producers and handlers to capture maximum value added. This change is being accelerated by overseas buyers distinguishing between conventional and biotech grains. Even wheat marketing, which does not yet face the challenges of biotech varieties, is seeing shifts in foreign demand toward cleaner and higher quality wheat. This trend toward a more segregated market poses challenges to existing bulk means of handling grain and traditional means of marketing grain. GIPSA stands ready to meet these challenges.

WORC Petition

The Western Organization of Resource Councils (WORC) submitted a petition requesting that GIPSA initiate rulemaking to restrict certain livestock procurement practices regarding forward contracting and packer-fed cattle. To create a forum for discussion, GIPSA published the WORC petition in the *Federal Register* in January 1997 and received over 1,700 comments by the close of the comment period in April 1997. A team of USDA personnel with economic, legal, and industry expertise reviewed and summarized the comments and assessed the petition's economic and legal justifications and the arguments presented in the comments.

The petition continues to stimulate valuable discussion of economic and legal issues relating to forward contracting and packer feeding of cattle, as well as contractual arrangements for production and sale of other species. GIPSA and USDA are committed to continuing a review of and dialogue on the important questions raised in the petition. To that end, USDA held a public forum on September 21, 2000, to solicit input on issues pertaining to captive supplies, including the WORC petition. Proceedings from the forum and other relevant information are available on GIPSA's web site at <http://www.usda.gov/gipsa/forum/forum.htm>.

To foster an ongoing dialogue on the merits of the issues, the review and assessment of the petition is available on GIPSA's Web site for public review (http://www.usda.gov/gipsa/worc_petition/petition.pdf). The findings of econometric analyses conducted as part of the Texas fed-cattle investigation and the peer reviewers' comments on the investigation are also available for public review on GIPSA's Web site (<http://www.usda.gov/gipsa/programsp/txpeer/peerreview.htm>).

Regulatory Actions

Non-Reporting of Price. During 2001, GIPSA will publish in the *Federal Register* a Notice of Proposed Rulemaking (NPRM) prohibiting the practice of non-reporting of price as a condition of purchase or sale of livestock. On September 14, 2000, GIPSA submitted the NPRM to the Office of Management and Budget for clearance.

Feed Weight Regulation. On April 5, 2000, GIPSA published in the *Federal Register* a final rule for the feed weight regulation. The new regulation will help ensure that feed weight is properly documented whenever it affects payment to livestock and poultry growers. This regulation applies when livestock or poultry are produced under a contract growing arrangement. GIPSA is continuing to implement the feed weight regulation, which became effective on May 5, 2000, by providing information to growers through a series of Poultry Town Hall Meetings.

Swine Contract Library. On September 5, 2000, GIPSA published in the *Federal Register*, a proposed rule to implement USDA's mandate under its FY 2000 appropriation to create a library of swine marketing contracts, and to provide monthly reporting on contract arrangements. The comment period closed on October 5, 2000. GIPSA is developing programs to implement the swine contract library when the final rule becomes effective in FY 2001.

Livestock and Poultry Marketing Proposed Rules. GIPSA plans to publish a series of four proposed rules that are intended to help ensure fair competition in the livestock, poultry, and meat packing industries. These new regulations will help level the playing field by increasing the transparency of market transactions. Specifically, the new regulations are intended to (1) clarify record keeping requirements for packers; (2) mandate disclosure of specific production contract terms in plain language and prohibit restrictions on the disclosure of contract terms; (3) require that livestock owned by different people be purchased, sold, or offered for purchase or sale on its own merits; and (4) specify conditions under which packers may offer premiums and discounts in carcass merit transactions.

Investigation Development

As discussed below under “FY 2000 Highlights,” the General Accounting Office (GAO) conducted an audit of GIPSA’s investigations of competitive practices. In FY 2001, GIPSA will take appropriate steps to implement recommendations in the GAO report. Public Law 97-258 (31 U.S.C. 720) requires USDA to submit to the U.S. Congress a written statement of action taken on GAO recommendations by within 60 days after the date of the report.

Among the steps to be taken will be development and implementation of a formal process for investigation planning, development, implementation, and review. The procedures will ensure that plans for complex investigations are reviewed by GIPSA headquarters and the Office of the General Counsel (OGC). The process will enhance current informal teamwork between GIPSA and OGC during early stages of complex investigations, and ensure that all investigative, economic, and legal issues are carefully considered before embarking on complex investigations.

Reporting on Swine Contracts

GIPSA developed a proposed rule to implement USDA’s mandate under its FY 2000 appropriation to create a library of swine marketing contracts and to provide monthly reporting on contract arrangements. The Office of Management and Budget cleared the proposed rule on August 21, 2000. GIPSA published it for comment in the *Federal Register* on September 5, 2000, after which a final rule will be prepared. GIPSA is developing programs to implement the swine contract library when the final rule becomes effective in FY 2001.

Outreach

GIPSA continues to improve its outreach efforts to producers of all sizes. Special emphasis has been placed on reaching out to small- and medium-sized farmers and ranchers. Town Hall meetings, forums, and attendance at industry conferences and conventions provide opportunities to seek input and maintain a meaningful dialogue with all facets of the industry. Poultry and Cattle Town Hall meetings are planned for next fiscal year (FY).

P&S Programs Development

In 1999, GIPSA completed a major restructuring of its P&S Programs to strengthen its capability to investigate possible unfair and anticompetitive practices, and to provide greater flexibility and efficiency in enforcing the trade practice and payment protection provisions of the P&S Act. GIPSA has added economic, statistical, and legal expertise to the field and headquarters offices to address anticompetitive practices in the livestock, meat, and poultry industries. In FY 2001, GIPSA will continue to review its

personnel staffing and development needs in these areas to further strengthen its investigations of anticompetitive practices. In October 2000, GIPSA will hold an intensive 3-day training session for all P&S Programs economists and legal specialists. OGC attorneys also will participate in specific components of the training sessions, both as trainees and instructors.

Management Information System

The Agency is considering modernizing existing electronic databases and information storage and retrieval to streamline online access for GIPSA employees. This modernization will enhance and improve the data collection and reporting that is critical to the mission of the Agency. A centralized system that is accessible to all Agency employees, regardless of their location, is planned. The system will incorporate a standardized method of access that will bring together information and electronic records that currently reside in several different databases and storage locations. If needed, negotiations with outside contractors will be scheduled during FY 2001.

Electronic Collection and Dissemination of Information

Government paperwork elimination initiatives, as well as Executive and Congressional Branch mandates for electronic public access to information, are driving GIPSA's information technology requirements. The Agency is working to provide the public the ability to file required reports and to retrieve public data electronically, while maintaining required paper receipt and dissemination. The World Wide Web component of the Internet has become the medium of choice for receiving and disseminating electronic information for those customers conducting business electronically; those without electronic systems must continue to be provided the ability to file and receive information via paper.

GIPSA is re-engineering, redesigning, and planning the World Wide Web enabling of current computer systems, applications, and public data repositories. Work on two important systems began in FY 2000.

The Swine Contract Library and Catalog Information Collection System will include both paper and electronic submissions. Primary submission of full contracts will be by paper or facsimile transmission with storage in both paper and scanned electronic formats. The monthly collection and dissemination of data for projected purchase quantities under each contract will be primarily through a World Wide Web-based site. However, capabilities will still be provided to disseminate information via e-mail, facsimile, or paper forms. The primary work site will be in the GIPSA Des Moines, Iowa, regional office with the Web site housed in Washington, DC.

The Packer Annual Report system also is being re-engineered and redesigned. Packers will be given the opportunity to file required reports electronically as well as by traditional paper methods. It is hoped that most packers will choose electronic filing to reduce their costs and improve the timeliness of filings. Electronic receipt of reports will result both in more

timely data analysis by GIPSA analysts and dissemination of relevant information to GIPSA customers. This system also will use World Wide Web-based technology to collect and disseminate data.

Electronic Commerce

Recent advances in information technology have provided the U.S. grain marketing system with a tool to provide instantaneous exchange of electronic documents and data among all parties in the trade chain. Electronic commerce companies and business-to-business ventures focused on local, regional, national, and international grain sales are emerging at a record pace, and are forging alliances within the grain industry. Electronic commerce is improving market efficiency, facilitating transparent pricing, offering new price risk management tools to producers, and providing more seamless transactions. In keeping with our mission to facilitate the marketing of U.S. grain and oilseeds, during FY 2001, the Agency will continue to participate in pilot tests and demonstrations with electronic commerce vendors, and to adopt the latest hardware, software, and available technology so that GIPSA is prepared to enter and participate in the electronic commerce arena as our customers migrate towards this marketing process.

Fees

In FY 2001, GIPSA will propose fee increases for all hourly rates and certain unit rates for inspection services performed under the Agricultural Marketing Act of 1946 in the commodity and rice inspection programs. These increases are needed to cover increased operational costs resulting from the mandated January 2001 Federal pay increase. During the fiscal year, GIPSA will evaluate the need for fee increases for other programs.